

Message Text

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ACTION EUR-12

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FRB-01 INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 SAM-01 FEA-01 /090 W
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R 041612Z APR 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 8138

INFO USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 7313, MARCH 21, 1975

1. SUMMARY. IN APPARENT REACTION TO PRIVATE-SECTOR ALARM OVER DECLINING LEVEL OF CAPITAL INVESTMENT IN FRANCE, PRESIDENT GISCARD D'ESTAING ANNOUNCED ON MARCH 25, WITHOUT ELABORATING, THAT GOF WILL PURSUE "ACTIVE INVESTMENT POLICY" IN COMING MONTHS TO EXPAND PRODUCTIVE CAPACITY AND THUS INCREASE EMPLOYMENT. OFFICIAL VIEW OF ECONOMY UPBEAT ON FOREIGN-TRADE AND INFLATION FRONTS, ALTHOUGH GOF EXPECTATIONS OF REAL
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GROWTH IN 1975 CONTINUE TO BE SCALED DOWNWARD. GOF

INDICATES SOME EASING OF INTENSIVE EFFORTS BY FRENCH FINANCIAL AUTHORITIES TO RAISE MONEY ON INTERNATIONAL CAPITAL MARKETS TO FINANCE PAYMENTS DEFICIT - BUT ADDITIONAL "GUIDED" BORROWINGS SEEM INEVITABLE OVER COURSE OF 1975. RETAIL PRICE FIGURES FOR FEBRUARY SHOW 0.8 PERCENT MONTHLY INCREASE (WITHIN GUIDELINES SET BY GOF); INDUSTRIAL-PRODUCTION INDEX EDGED UP SLIGHTLY IN JANUARY. END SUMMARY.

2. GISCARD PLUMPS INVESTMENT, DISCOUNTS CONSUMER DEMAND -

IN MONTHLY "FIRESIDE CHAT" DEVOTED PRINCIPALLY TO DEFENSE ISSUES (SEE PARIS 7730), PRESIDENT GISCARD D'ESTAING SAID MARCH 25 GOF WOULD PURSUE "ACTIVE INVESTMENT POLICY" IN ANY MEASURES TAKEN TO STIMULATE FRENCH ECONOMY; HE DID NOT ELABORATE, SAYING ONLY THAT FINANCE MINISTER FOURCADE TO MEET WITH OFFICIALS IN PUBLIC AND PRIVATE SECTORS TO PLAN SUPPORT OR INTENSIFICATION OF CURRENT INVESTMENT EFFORTS. (AS NOTED REFTEL, STEADY DECLINE IN UNFILLED ORDERS FOR NEARLY ALL SECTORS OF ECONOMY, PLUS MOUNTING UNUSED CAPACITY, HAVE COMBINED IN RECENT MONTHS TO KEEP LID ON INVESTMENT INTENTIONS, LEADING MANY INDUSTRIALISTS TO FEAR THAT EFFECTS OF CURRENT RECESSION WILL ACCORDINGLY BE FELT WELL BEYOND 1975.)

GISCARD WENT ON TO SAY THAT GOF NOT LOOKING TO REVIVAL IN CONSUMER DEMAND FOR SUPPORT OR STIMULATION OF FRENCH ECONOMY, ASSERTING THAT SOME DEPRESSED SECTORS AT THIS POINT "WOULD GAIN NOTHING" FROM PICKUP IN INTERNAL DEMAND, AND THAT CONSEQUENCES OF SUCH REVIVAL WOULD TEND MORE TOWARD PRICE INCREASES THAN TOWARD RECOVERY IN ECONOMIC ACTIVITY. PRESIDENT'S STATEMENT, WHILE IMPLICITLY PINNING HOPES ON FOREIGN SECTOR, MAY ALSO HAVE BEEN REACTION TO INDICATIONS THAT CONSUMER DEMAND IN FRANCE IS FLAGGING IN ANY CASE. TWO DAYS BEFORE GISCARD'S SPEECH, QUARTERLY SURVEY OF HOUSEHOLDS RELEASED BY INSEE (NATIONAL STATISTICS INSTITUTE), WHICH SHOWED MAJORITY OF RESPON-

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DENTS DISINCLINED TO MAKE MAJOR PURCHASES FOR TIME BEING - WHILE OVER 60 PERCENT HELD OPPOSITE VIEW AT THIS TIME LAST YEAR.

3. FIRST-QUARTER GIP SAID TO REVERSE DECLINE -

SPEAKING BEFORE SENATE FINANCE COMMITTEE APRIL 2, FINANCE MINISTER FOURCADE ESTIMATED THAT DURING FIRST

QUARTER 1975 FRENCH REAL GROSS INTERNAL PRODUCT
(ROUGHLY EQUAL TO GNP LESS SERVICES PERFORMED BY
GOVERNMENT EMPLOYEES AND DOMESTIC SERVANTS) WAS
EQUIVALENT TO AVERAGE LEVEL FOR WHOLE OF LAST YEAR,
FOLLOWING DECLINE IN FOURTH QUARTER 1974. FOURCADE
MAINTAINED NET INCREASE IN GIP WILL BE REGISTERED IN
1975 OVER 1974, ALTHOUGH EXTENT OF GROWTH "WILL BE
BELOW FORECASTS MADE BY GOF IN OCTOBER".

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CEA-01 SAM-01 FEA-01 /090 W
----- 116809

R 041612Z APR 75
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 8139
INFO USDEL MTN GENEVA
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL BORDEAUX
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REVIEWING CURRENT ECONOMIC SITUATION, FOURCADE
SAID FRENCH TRADE BALANCE IMPROVING "MORE RAPIDLY THAN
EXPECTED" AND THAT RATE OF PRICE INFLATION BEING EASED

ACCORDING TO TIMETABLE SET BY GOF - MAKING FEASIBLE A
RETURN TO SINGLE-DIGIT INFLATION FOR 1975 OVERALL.
FOURCADE ALSO SAID FURTHER REDUCTION IN BANK LENDING
RATES MAY BE IN CARDS BUT, ON ACCOUNT OF "EXPECTED
STRENGTHENING OF EURODOLLAR RATES, GIVEN U.S. BUDGETARY
DEFICIT," HE HOPED DECLINE IN FRENCH INTEREST RATES
WOULD NOT BE "TOO RAPID".

THE FINANCE MINISTER ALSO ANNOUNCED THAT FRENCH
NATIONALIZED ENTERPRISES HAVE BEEN ORDERED TO CUT BACK
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ON THEIR BORROWINGS ABROAD, WHILE FOREIGN
BORROWINGS IN EUROFRANCS TO BE ENCOURAGED. (COMMENT:
FOURCADE'S STATEMENT INDICATES SOME EASING OF THE
INTENSIVE EFFORTS WHICH FRENCH FINANCIAL AUTHORITIES
HAVE BEEN MAKING TO RAISE MONEY ON INTERNATIONAL CAPITAL
MARKET TO FINANCE BALANCE OF PAYMENTS DEFICIT. THIS
DECISION IS DOUBTLESS LINKED TO CONTINUING SPONTANEOUS
CAPITAL INFLOWS IN APPRECIABLE VOLUME AND STRENGTH OF
FRENCH FRANC IN EXCHANGE MARKETS - ESPECIALLY AGAINST
DOLLAR. HOWEVER, GIVEN PROSPECT OF LARGE CURRENT
ACCOUNT DEFICIT IN 1975, THERE WILL CERTAINLY BE
ADDITIONAL "GUIDED" FOREIGN BORROWINGS BY FRENCH
NATIONALIZED COMPANIES AS YEAR PROGRESSES.)

4. PRICES RISE 0.8 PERCENT IN FEBRUARY -

FRENCH RETAIL PRICES ROSE 0.8 PERCENT DURING
FEBRUARY, FOLLOWING 1.1 PERCENT INCREASE IN JANUARY;
OVER PREVIOUS TWELVE MONTHS, INSEE CONSUMER PRICE
INDEX HAD RISEN 13.9 PERCENT, COMPARED TO 14.5 PERCENT
FOR YEAR ENDING JANUARY AND 15.2 PERCENT FOR CALENDAR
YEAR 1974.

FEBRUARY PRICE INCREASES LED BY RETAIL FOOD
PRICES (UP 0.9 PERCENT FROM JANUARY). PRICES FOR
MANUFACTURED PRODUCTS AND SERVICES BOTH ROSE 0.8 PERCENT,
FOLLOWING RESPECTIVE INCREASES OF 1.2 AND 1.3 PERCENT
IN JANUARY; INCREASE IN PRICES FOR MANUFACTURES WAS,
IN FACT, LOWEST RECORDED SINCE DECEMBER 1973.

FRENCH PRICE INFLATION
(INSEE CONSUMER PRICE INDEX, BASE 1970
AS 100; CHANGES IN PERCENT)

	SEP	OCT	NOV	DEC	JAN	FEB
INDEX	140.1	141.8	143.1	144.3	145.9	147.0

INCREASE

(1 MONTH) 1.1 1.2 0.9 0.8 1.1 0.8

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INCREASE

12 MONTHS 14.7 15.0 14.9 15.2 14.5 13.9

5. INDUSTRIAL PRODUCTION UP SLIGHTLY IN JANUARY -

FROM TWO-YEAR LOW POINT REACHED IN DECEMBER,
FRENCH INDUSTRIAL OUTPUT EDGED UP 1 PERCENT IN JANUARY.
OVERALL INSEE INDEX OF INDUSTRIAL PRODUCTION SET AT
116 FOR JANUARY (SEASONALLY ADJUSTED, BASE 1970 AS
100), UP FROM REVISED LEVEL OF 115 FOR DECEMBER.

FRENCH INDUSTRIAL PRODUCTION
(SEASONALLY ADJUSTED; BASE 1970 AS 100)

MAY JUN JUL AUG SEP OCT NOV DEC JAN

126 126 128 128 121 122 118 115 116

IN JANUARY, LEVEL OF PRODUCTION STABILIZED OR
INCREASED IN ALL SECTORS EXCEPT CHEMICALS INDUSTRY,
WHERE OUTPUT NOW AT MID-1974 LEVELS. SEASONALLY-
ADJUSTED INDEX FOR BUILDING SECTOR IN JANUARY ROSE TO
1974 AVERAGE OF 101 FROM 94 IN DECEMBER.

6. AUTO OUTPUT DECLINES 10 PERCENT IN YEAR ENDING
FEBRUARY -

AUTOMOBILE PRODUCTION AMOUNTED TO 243,741 UNITS
IN FEBRUARY, A DECLINE OF NEARLY 10 PERCENT FROM LEVEL

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CEA-01 SAM-01 FEA-01 /090 W
----- 119159

R 041612Z APR 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 8140

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REACHED IN FEBRUARY 1974; OVER THE PERIOD NEW REGISTRATIONS DROPPED 2 PERCENT, WHILE EXPORTS ROSE 23 PERCENT. TRUCK PRODUCTION DECLINED 12 PERCENT, TO 32,342 UNITS. ALTHOUGH EXPORTS OF TRUCKS WERE UP 20 PERCENT, NEW REGISTRATIONS WERE 26 PERCENT BELOW YEAR-EARLIER LEVELS, REGARDED BY THE INDUSTRY AS A SERIOUS SLUMP IN DEMAND.

7. REPORT SHOWS CHANGING COMPOSITION OF FRENCH FOREIGN TRADE -

FRENCH FOREIGN TRADE, PREVIOUSLY CONCENTRATED ON INDUSTRIALIZED EUROPEAN COUNTRIES, SHIFTED MARKEDLY DURING 1974 TOWARD DEVELOPING (ESPECIALLY OIL-PRODUCING) UNCLASSIFIED

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COUNTRIES, ACCORDING TO FINANCE MINISTRY ANALYSIS RELEASED MARCH 24. (FIGURES ON FOB-CIF BASIS.) FOLLOWING ESCALATION OF PETROLEUM PRICES, OIL PRODUCERS ACCOUNTED FOR ONE-FIFTH OF FRENCH FOREIGN PURCHASES LAST YEAR (PROVIDING IMPORTS VALUED AT 47 BILLION FRANCS); SIMULTANEOUSLY, FRENCH EXPORTS TO THOSE COUNTRIES INCREASED 76 PERCENT (COMPARED TO OVERALL 1974 EXPORT GROWTH OF 38 PERCENT), TO 13 BILLION

FRANCS. WHILE CONTRACTING IN RELATIVE TERMS, FRENCH
TRADE WITH EC COUNTRIES REMAINED MOST IMPORTANT
SINGLE COMPONENT: 53 PERCENT OF FRENCH EXPORTS AND
48 PERCENT OF IMPORTS ACCOUNTED FOR BY HER EIGHT
EC PARTNERS. TRADE DEFICIT WITH GERMANY (WHICH REMAINED
AS FRANCE'S MOST IMPORTANT CUSTOMER AND SUPPLIER) SET AT
FF 11 BILLION FOR 1974, COMPARED TO FF 7 BILLION IN
1973; TRADE DEFICIT WITH U.S. ALSO WIDENED, FROM FF 6
BILLION IN 1973 TO FF 9 BILLION IN 1974.

8. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

7970 EXPORT PRODUCTION COST RISK
INSURANCE IN FRANCE MARCH 28, 1975

AIRGRAMS

A-135 FRENCH FOREIGN EXCHANGE
HOLDINGS MARCH 21, 1975

A-139 VALUE OF TRADE IN
MANUFACTURES(CERP 1208) MARCH 21, 1975

A-141 FRENCH FOREIGN EXCHANGE
HOLDINGS MARCH 28, 1975

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC STABILITY, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975PARIS08459
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750117-0607
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750481/aaaacvol.tel
Line Count: 359
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 PARIS 7313, 75 MARCH 21, 75 1975
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 25 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 JUN 2003 by maginmm>; APPROVED <12 JAN 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS
TAGS: EALR, EFIN, EGEN, FR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006